

FAWN RIVER TOWNSHIP
(St Joseph)
COMPREHENSIVE ANNUAL FINANCIAL REPORT
75-1050
FOR THE YEAR ENDED MARCH 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <u>Fawn River Township</u>	County <u>St. Joseph</u>
Audit Date <u>March 31, 2004</u>	Opinion Date <u>Sept. 13, 2004</u>	Date Accountant Report Submitted to State: <u>September 29, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, included in the notes, or in the report of comments and recommendations

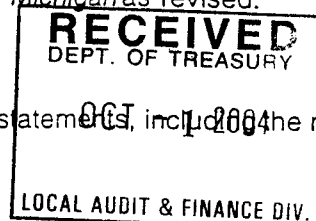
You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <u>David F. Lacey, CPA, PC</u>			
Street Address <u>67036 N. M-66</u>	City <u>Sturgis</u>	State <u>MI</u>	ZIP <u>49091</u>
Accountant Signature <u>[Signature]</u>			



Phone (269) 651-4225
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Independent Auditor's Report

To Board of
Fawn River Township

We have audited the accompanying financial statements of the governmental activities of Fawn River Township as of and for the year ended March 31, 2004, which comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fawn River Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Fawn River Township as of March 31, 2004, and the respective changes in financial position where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fawn River Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2004 on our consideration of Fawn River Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Fawn River Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements, as of March 31, 2004.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

David F. Locey, CPA, PC
September 13, 2004

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FAWN RIVER TOWNSHIP
FOR THE YEAR ENDED MARCH 31, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the year ended March 31, 2004.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 – 9) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's general funds.

Reporting the Township as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the Township as a whole begins on page 5. One of the most important questions asked about the Township's finances, is, "Is the Township as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets and changes in them. You can think of the Township's net assets-the difference between assets and liabilities-as one-way to measure the Township's financial health, or financial position. Over time, increases or decreases in the Township's net assets are one indicator of whether its financial health is improving or deteriorating.

Statement of Net Assets and the Statement of Activities:

- Governmental activities-The Township's basic services are reported here – general government activities. State Revenue Sharing, interest, and special assessments finance most of these activities.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the general fund-not the Township as a whole.

- Governmental funds-All of the Township's services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Fiduciary funds-trust and agency fund-perpetual cemetery care.

THE TOWNSHIP AS A WHOLE

For the year ended March 31, 2004, net assets changed as follows:

	Governmental Activities
Beginning net assets	\$ 544,066
Increase in net assets	<u>170,732</u>
Ending net assets	<u>\$ 714,798</u>

Since this is the first year to report all activities on the accrual basis of accounting, a comparison to the prior year is not possible (with the exception of the above comparison). However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets.

Governmental Activities

Again, because this is the first year to report governmental activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in next year's discussion this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed, then revenues from that particular program reported second. The result is a Net(Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Township's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

THE TOWNSHIP'S FUNDS

With the implementation of two new accounting standards, an analysis of current- and prior-year governmental fund (in particular the general fund) balance sheets is difficult to do. In subsequent years, this section will discuss and analyze significant differences. However, some individual funds were not affected by these new accounting standards and a review of those funds follows.

The following schedule presents a summary of general, special revenue, capital project, debt service, and permanent fund revenues and expenditures for the fiscal year ended March 31, 2004, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues:	FYE 04 Amount	Percent of Total
State Revenue Sharing	\$114,330	65.9%
Township Support	21,134	12.1%
Interest	18,255	10.5%
Other	<u>19,965</u>	<u>11.5%</u>
Total Revenues	\$173,684	100.00%

Expenditures:	FYE 04 Amount	Percent of Total
Township Board	\$ 8,836	5.5%
Supervisor	8,750	5.4%
Assessor	11,161	6.9%
Clerk	8,588	5.3%
Treasurer	13,224	8.2%
Trustee	1,290	.1%
Zoning	12,410	7.7%
Inspector	3,474	2.1%
Board of Review	973	.1%
Cemetery	1,000	.1%
Hall	4,891	3.0%
Fire	18,414	11.4%
Roads	65,729	40.9%
Ambulance	<u>1,357</u>	<u>3.3%</u>
Total Expenditures	\$160,597	100.0%

CAPITAL ASSET

Capital Assets

At the end of March 31, 2004, the Township had \$127,495 invested in capital assets.

	Governmental Activities
Equipment	\$ 82,900
Roads	<u>44,595</u>
TOTALS	<u>\$ 127,495</u>

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Fawn River Township, 31194 Fawn River Road, Sturgis, MI 49091.

FAWN RIVER TOWNSHIP
STATEMENT OF NET ASSETS
MARCH 31, 2004

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash and cash equivalents	\$525,406
Accounts receivable - State	24,724
Accounts receivable - special assessments	39,714
Prepaid insurance	6,680
Other assets	<u>765</u>
Total current assets	\$597,289
Noncurrent Assets:	
Capital assets	
Building	75,000
Equipment	7,900
Roads	44,595
Accumulated depreciation	<u>(9,986)</u>
Total noncurrent assets	<u>117,509</u>
Total assets	714,798
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>109</u>
Total liabilities	<u>109</u>
NET ASSETS	-
Invested in Capital Assets	117,509
Unrestricted	<u>597,180</u>
Total net assets	<u><u>\$714,689</u></u>

Notes to the financial statement are an integral part of this statement.

FAWN RIVER TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2004

Governmental Activities:

Expenses

General Government

Township board	\$13,295
Supervisor	8,750
Assessor	11,161
Clerk	8,588
Treasurer	13,224
Trustee	1,290
Zoning	12,910
Inspector	3,474
Board of review	973
Cemetery	1,000
Hall	4,891
Total general government	<u>79,556</u>

Public Safety

Fire	18,414
Roads	21,134
Ambulance	1,357
Total public safety	<u>40,905</u>

Net (expenses) 120,461

General Revenues:

State revenue sharing	114,330
Special assessments	21,134
Interest income	- 18,255
Act 425 - agreement	3,599
Permits	4,829
Miscellaneous	11,537
Total general revenues	<u>173,684</u>

Change in net assets 53,223

Net assets-beginning 543,957

GASB 34 - Capital asset
valuation adjustment 117,509

Net assets-ending \$714,689

Notes to the financial statement are an integral part of this statement.

FAWN RIVER TOWNSHIP
COMBINED BALANCE SHEET
ALL FUND TYPES
MARCH 31, 2004

	Governmental Fund Types	Fiduciary Fund Types	Total (Memorandum Only)
	General	Trust and Agency	Reporting Entity
ASSETS			
Cash and cash equivalents	\$525,263	\$143	\$525,406
Accounts receivable - State	24,724	0	24,724
Accounts receivable - special assessments	39,714	0	39,714
Prepaid insurance	6,680	0	6,680
Other assets	765	0	765
Total assets	<u>\$597,146</u>	<u>\$143</u>	<u>\$597,289</u>
LIABILITIES			
Accounts payable-expenses	<u>\$109</u>	<u>\$0</u>	<u>\$109</u>
Total liabilities	<u>109</u>	<u>0</u>	<u>109</u>
FUND BALANCE			
Reserved for perpetual care	0	143	143
Unreserved	<u>597,037</u>	<u>0</u>	<u>- 597,037</u>
Total fund balance	<u>597,037</u>	<u>143</u>	<u>597,180</u>
Total liabilities and fund balance	<u>\$597,146</u>	<u>\$143</u>	<u>\$597,289</u>

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds, net of accumulated depreciation of \$9,986 117,509

Notes to the financial statement are an integral part of this statement.

FAWN RIVER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2004

	Governmental Activities
REVENUES	<u>\$114,330</u>
State revenue sharing	21,134
Special assessments	18,255
Interest income	3,599
Act 425 - agreement	4,829
Permits	11,537
Miscellaneous	<u>173,684</u>
Total revenues	
EXPENDITURES	
Township board	8,836
Supervisor	8,750
Assessor	11,161
Clerk	8,588
Treasurer	13,224
Trustee	1,290
Zoning	12,910
Inspector	3,474
Board of review	973
Cemetery	1,000
Hall	4,891
Fire	18,414
Roads	65,729
Ambulance	1,357
Total expenditures	<u>160,597</u>
Excess (deficiency) of revenues over expenditures	<u>13,087</u>
Fund balance-beginning	<u>583,950</u>
Fund balance-ending	<u><u>\$597,037</u></u>
Reconciliation of the change in fund balances-total governmental funds to the change in net assets of governmental activities:	
Net change in fund balances-total governmental funds	\$13,087
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized - current year	44,595
Depreciation expense	(4,459)
Change in Net Assets of Governmental Activities	<u><u>\$53,223</u></u>

Notes to the financial statement are an integral part of this statement.

FAWN RIVER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2004

	Budget	Actual	Variance
REVENUES			
State revenue sharing	\$121,208	\$114,330	(\$6,878)
Special assessments	0	21,134	21,134
Interest income	8,500	18,255	9,755
Act 425 - agreement	5,000	3,599	(1,401)
Permits	380	4,829	4,449
Miscellaneous	17,470	11,537	(5,933)
Total revenues	<u>152,558</u>	<u>173,684</u>	<u>21,126</u>
EXPENDITURES			
Township board	8,530	8,836	(306)
Supervisor	8,751	8,750	1
Assessor	11,165	11,161	4
Clerk	8,589	8,588	1
Treasurer	13,224	13,224	0
Trustee	1,300	1,290	10
Zoning	12,910	12,910	0
Inspector	3,500	3,474	26
Board of review	978	973	5
Cemetery	1,000	1,000	0
Hall	4,900	4,891	9
Fire	27,780	18,414	9,366
Roads	44,600	65,729	(21,129)
Ambulance	1,130	1,357	(227)
Total expenditures	<u>148,357</u>	<u>160,597</u>	<u>(12,240)</u>
Excess (deficiency) of revenues over expenditures	<u>4,201</u>	<u>13,087</u>	<u>8,886</u>
Fund balance-beginning	<u>583,950</u>	<u>583,950</u>	<u>0</u>
Fund balance-ending	<u><u>\$588,151</u></u>	<u><u>\$597,037</u></u>	<u><u>\$8,886</u></u>

FAWN RIVER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED MARCH 31, 2004

	Non-Expendable Cemetery Trust
	<u> </u>
Nonoperating Revenues	
Interest earned on investments	<u> \$0</u>
Total nonoperating revenues	<u> 0</u>
Nonoperating income (loss)	<u> 0</u>
Nonoperating Revenues (Expenses)	
Transfers in (out)	<u> (28)</u>
Total nonoperating revenues (expenses)	<u> (28)</u>
Net Income	(28)
Fund balance - beginning	<u> 171</u>
Fund balance - ending	<u> ~ \$143</u>

FAWN RIVER TOWNSHIP
STATEMENT OF CASH FLOWS
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED MARCH 31, 2004

Non-Expendable
Cemetery
Trust

Cash Flows From Noncapital Financing Activities

Transfers in (out) (\$28)

Net cash provided by noncapital financing activities (28)

Cash Flows From Investing Activities

Interest on investments 0

Net cash provided by investing activities 0

Net Increase (Decrease) in Cash and Cash Equivalents (28)

Cash and Cash Equivalents at Beginning of Year 171

Cash and Cash Equivalents at End of Year \$143

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Fawn River Township is located in St. Joseph County and provides services including public safety, highways and streets, general administrative services, and community enrichment and development. The Township is governed by a 5 member board elected by the citizens of Fawn River Township. The board consists of the supervisor, clerk, treasurer, and two trustees who reside in the community.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Boards (GASB) Statement No. 14 "The financial Reporting Entity", these financial statements present the Township (the primary government) and its component unity (none). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included.

Joint Venture

The Township is a member of the Tri-Township Fire Association of Sherman, Sturgis, and Fawn River Townships. A joint venture was formed to provide fire protection within the provided Townships. Costs of operations and capital expenditures are supported by contributions from the participating municipalities that take into account their respective population and number of fire calls. The Tri-Township Fire Association is managed by a board which consists of members from each participating municipality. The board adopts the departments budget and controls its financing.

Summary financial information from the March 31, 2004 audit of Tri-Township Fire Association is as follows:

Revenue	\$ 145,488
Expenditures	<u>99,708</u>
Excess (deficiency) of Revenue Over Expenditures	45,780
Fund Balance – Beginning of Year	33,654
GASB 34 Adjustment	<u>685,011</u>
Fund Balance – End of Year	<u>\$ 764,445</u>

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT'D)

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government. Governmental activities generally are financed through intergovernmental revenues and other revenues.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund - This fund is the primary operating fund of the Township, it is used to account for all activities.

FIDUCIARY FUNDS

Trust and Agency – These funds are used to account for the assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or funds. These include: agency funds and a nonexpendable cemetery trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations. Nonexpendable trust funds are treated in the same manner as proprietary fund types.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT'D)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONT'D)

Measurement Focus

On the Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditure (including capital outlay) are recorded when the related fund liability is incurred.

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT'D)

ASSETS, LIABILITIES, AND EQUITY

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at market value, or estimated market value if actual is unavailable. Estimated market value was used to value the majority of the assets acquired prior to April 1, 2003.

Prior to April 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets (back to April 1, 2003) have been valued at estimated market value.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	15 years
Roads	10 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT'D)

TOTAL COLUMN ON COMBINED STATEMENTS – OVERVIEW

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position, in conformity with generally accepted accounting principles, also is not data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

CASH AND CASH EQUIVALENTS

Deposits

The Township's policies regarding deposits of cash are discussed below. The table presented below is designed to disclose the level of custody credit risk assumed by the Township based upon how its deposits were insured or secured with collateral at March 31, 2004. The categories of credit risk are defined as follows:

Category 1-Insured by FDIC or collateralized with securities held by the Township or its agent in its name

Category 2-Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name

Category 3-Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Township's name; or collateralized with no written or approved collateral Agreement

Type of Deposits	Total Bank Balance	Custody 1	Credit Risk 2	Category 3
Demand deposits	<u>\$525,406</u>	<u>\$113,100</u>	<u>\$ 0</u>	<u>\$394,306</u>
Total Deposits	<u>\$525,406</u>	<u>\$113,100</u>	<u>\$ 0</u>	<u>\$394,306</u>

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

OTHER ASSETS

COMPENSATED ABSENCE

None.

POST EMPLOYMENT BENEFITS

No benefits are available.

COMMITMENTS AND CONTINGENCIES

Management of the Township is not aware of any material commitments or contingent liabilities.

RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has participated in the Michigan Township Participating Plan (MTPP) since January 1, 1987. The plan covers general liability, non-owned/hired automobile liability, errors and omissions, property damage, and inland marine. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MTPP was created pursuant to the authority of a)Article 7, Section 28, Michigan Constitution of 1963; b)Section 1, Chapter 124, Michigan Compiled Laws (PA No. 35, 1951, as amended by PA No. 138, 1982). The Township voted unanimously to enter into this cooperative action agreement October 2, 1986 and have continued their membership since.

The Michigan Township Participating Plan was established April 1, 1985, pursuant to laws of the State of Michigan which authorize local units of government to exercise jointly any power, privilege or authority which each might exercise separately. The purpose of the plan is to jointly exercise powers common to each participating member; to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect, in accordance with this agreement, any member of the authority against liability or loss. The powers and duties created hereunder and the described

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

OTHER ASSETS (CONT'D)

RISK MANAGEMENT (CONT'D)

activities of the plan are not intended to constitute the issuance of a policy of insurance. The members intend, in the creation of the plan, to establish an organization for joint risk management and have not created as between member and member any relationship for the debts of or claims against any member.

The MTPP, while it operates under the Michigan Legislation of PA 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Participating Plan. Due to this reinsurance purchase, there is no pooling of risk between members. The plan has protected itself by purchasing reinsurance. Participating Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverage's 100 percent, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The Plan has reinsured 100 percent of its loss reserves and consequently has not reflected a liability for loss reserves on its balance sheet. In July 1992, the Plan entered into a negotiated settlement with Governmental Casualty Insurance Company (GCIC) and agreed to execute a commutation agreement whereby liability for all risks assumed by GCIC under their reinsurance agreements with the plan would be commuted back to the Plan. The Plan entered into a similar agreement with American Commercial Liability Insurance Company.

Based on actuarial study performed by William M. Mercer, Inc., the MTPP had the following open case reserves and IBNR reserves at June 30, 1996 under these commutation agreements:

<u>Case</u> <u>Loss Reserves</u>	<u>IBNR</u> <u>Reserves</u>	<u>Total</u> <u>Reserves</u>
\$313,550	\$31,252	\$344,802

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

OTHER ASSETS (CONT'D)

RISK MANAGEMENT (CONT'D)

At June 30, 1996, the Plan has reinsurance limits in the amount of \$693,119 to cover the reserves.

The plan has continued to use the services of Integrated Runoff Insurance Services Corporation (IRISC) to assist in formalizing loss reserve standards and in settling loss and loss adjustment expense reserves. IRISC has maintained its philosophy that the potential for governmental immunity should be ignored when setting case reserves, even though trends continue to indicate that average cases close for substantially less than the reserve estimates.

FAWN RIVER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONT'D)

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2004, was as follows:

	<u>Balance at April 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at March 31, 2004</u>
Governmental Activities:				
Machinery and equipment	<u>\$82,900</u>	<u>\$44,595</u>	<u>\$0</u>	<u>\$127,495</u>
Total at market value	<u>82,900</u>	<u>44,595</u>	<u>0</u>	<u>127,495</u>
Less accumulated depreciation				
Machinery and equipment	<u>0</u>	<u>(9,986)</u>	<u>0</u>	<u>(9,986)</u>
Total accumulated depreciation	<u>0</u>	<u>(9,986)</u>	<u>0</u>	<u>(9,986)</u>
Governmental activities capital assets, net	<u><u>\$82,900</u></u>	<u><u>\$34,609</u></u>	<u><u>\$0</u></u>	<u><u>\$117,509</u></u>

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COMMENTS AND RECOMMENDATIONS

To The Township Board
Fawn River Township
Sturgis, Michigan 49091

During the course of the examination of your records we observed the following situations that we feel need to be covered in our comments and recommendations letter.

- A. Payroll taxes and pension contributions are not being properly recorded, also W-2s were incorrect. Recommendation is to purchase Quickbooks payroll software and have our office set up the format.
- B. Investment accounts- record interest income on a monthly basis, also purchase or withdrawals by the township. Fluctuation in market value should be observed by the township board but not recorded until sold.
- C. Make adjusting entries for audit adjustments to get your books into balance with audit report.
- D. Review operations of Edward Jones on a monthly basis, during the current year investment values varied below historical costs. Do you want invest activity to go below cost at any given time?
- E. Tax collections-must be recorded in a self-balancing general ledger, this is fiduciary money and should be recorded separately.
- F. Recommend a review report on the off year to ensure accuracy of records before twenty-four months go by.

G. Monthly financial report for board:

1. Balance sheet and income statement actual versus budget.
2. Treasurers report

Beginning cash balance
Deposit totals for the month
Check disbursements per month _____
Ending cash balance

Beginning CD balance
Withdrawals
Transfers in/interest _____
Ending CD balance

We appreciate the opportunity of examining the records for Fawn River Township and look forward to future engagements.



David F. Locey, CPA, PC
September 13, 2004

FAWN RIVER TOWNSHIP
EDWARD JONES
ANALYSIS

Edward Jones 03/31/03	\$369,907
Interest earned	17,943
Withdrawals	<u>(20,700)</u>
Projected Balance 03/31/04	367,150
Actual Balance 03/31/04	<u>361,503</u>
Market Value Adjustments	(5,647)
Interest Earned	17,943
Market Adjustment	<u>(5,647)</u>
Net Interest	12,296
Net Interest Earned	<u>12,296</u>
Average Invested Funds	365,705
Yield Percentage	3.36%